

Consumption Expenditures in Recovery Phase

CONSUMPTION expenditures have moved up since early this year, and as pointed out in the opening business summary are now an important factor in current trends. The decline from the late 1960 peak was moderate, and the 3 percent rise from the first quarter 1961 low brought third quarter outlays to a new high. Early indications for the final quarter suggest a further gain, paced by a rebound in auto purchasing from the relatively low summer volume. There has been considerable variation of demand in particular lines of business, and durable goods sales have on the whole been low relative to the current level of income.

Consumer purchasing over the cycle

It is the purpose of this article to analyze the current tendencies and the longer-term structural changes in consumer purchasing of goods and services. The chart clearly shows that fluctuations in total consumer spending have been of limited amplitude around a growth tendency, though the durable goods segment shows a much more sensitive pattern than the other two major segments. This volatility in total consumption is one of the major characteristics of its cyclical pattern, and its declining relative size in recent years is an important factor in the longer-run pattern.

Outlays for durable goods have not been showing the buoyancy of the earlier postwar period. Unsatisfied demand for durables remaining after World War II and the effects of the Korean hostilities no doubt had a lifting effect on these purchases, although the cyclical swings have been pronounced in each of the postwar recessions. In these same years consumer expenditures for nondurable goods continued up-

ward, although at a somewhat less rapid pace than in the earlier period. The high growth rate of outlays for services has been maintained but, as may be seen from the chart, the proportion of consumer expenditures for services is now back to the 1929 proportion of 40 percent, after two decades of war and reconstruction distortions during which it has been much lower.

Buying and income

Examination of the relationships of the relative changes in consumption expenditures and its major components to disposable personal income in the postwar period suggests that changes in disposable personal income account for nearly all the variation in total consumer purchases of goods and services. Indeed, the relationship is one of direct proportionality—i.e., on the average for the postwar period each 1 percent change in income has been associated with a 1 percent change in expenditures. The relationship is quite stable, with only minor deviations during cyclical turns, although wider fluctuations occurred during the Korean hostilities.

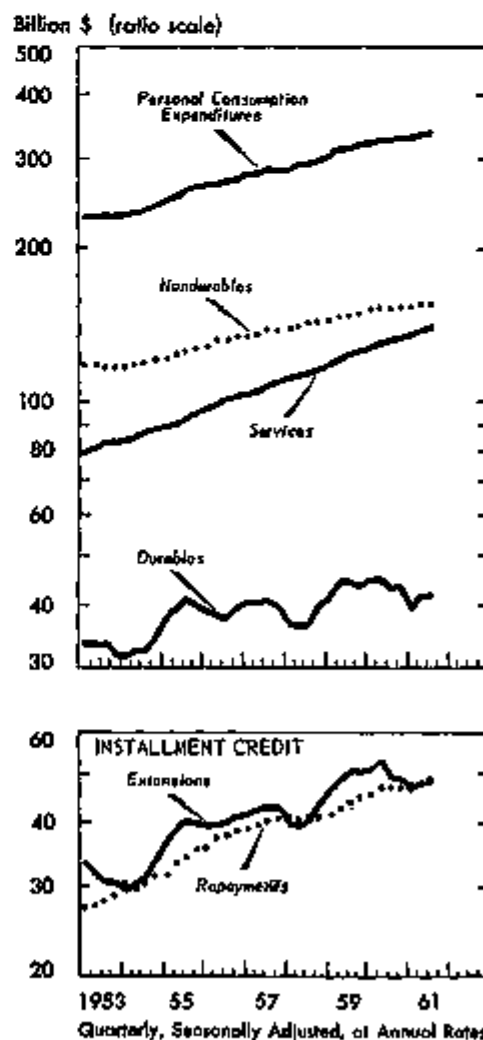
Nondurable goods demand has shown a high degree of constancy in its relationship to income in the period since Korea. The slope suggested by this relationship is 0.75, with those for food and clothing somewhat lower, and those for other major nondurable goods slightly higher.

Fluctuations around a logarithmic regression covering the postwar period are appreciable in the case of durable goods purchasing. Substantial deviations are apparent in cyclical periods and in response to Korean developments and the special factors in the 1955 automobile market. The slope for the 1948-61 period as a whole is slightly

under one; the instability of the relationship is such, however, that the average is not typical of any particular set of years in the postwar period. The slope has been well below unity in more recent years, with the flattening

CONSUMER SPENDING AND CREDIT

Consumers' Outlays Rise in 1961 as Services and Nondurables Reach New Highs
Durables Purchasing Improves but Low Volume Keeps Credit Extensions Balanced With Repayments



Data: FRB & OBE

U.S. Department of Commerce, Office of Business Economics 61-11-13

noticeable in both autos and the furniture-appliance group.

Outlays for services do not respond much to cyclical influences and relations to incomes are highly unsatisfactory since the correlations really are with trends—the average growth rate has been 7 percent per year.

Evaluation of current position

The course of consumption expenditures so far in 1961 has not been too far out of line with their average relationship to after-tax income, considering the cyclical as well as the trend posi-

have tended to follow residential construction activity, generally with a short lag. The latter series peaked in mid-1959, and the former in the final quarter of that year. Both types of demand fell through the first quarter of 1961. The subsequent rise in furniture and equipment purchases has been relatively less than in housing investment.

Consumers' demand for services in recent years of "catching up" has been relatively stronger than the demand for goods. Growth has not merely been confined to those consumption items which are classified as services. Among goods, growth has been above average for processed foods, new types of fabrics, and other items which economize on such household services as cooking and laundering.

The recovery of the service component of personal consumption expenditure—from the abnormally low war-and-position—is measured on the charts. From 1948 through 1960 dollar expenditures for services were up 133 percent compared to 95 percent for durables and 54 percent for nondurables; the rise in disposable personal income was 86 percent.

Part of the explanation for this is the more rapid price advance for services in the postwar period, about twice as much as the rise in prices of either durable or nondurable goods. Here again, one must keep in mind the influence of price controls, their relative incidence, and the different time periods over which they were lifted. Thus, this represents in some measure a catching up of service prices from the war restraints. After adjusting to constant dollars, the expansion of service expenditures from 1948 to 1960 while substantially in excess of nondurable goods, was not quite so large as the growth in durable goods purchasing from its still abnormally low level in 1948.

Table 2 presents these changes in consumption and compares them with the prewar period. In addition, the period 1953 to 1960 is shown to avoid the distortions of the early postwar years. Again the greater rise in service prices was present—twice as much as the increase in goods prices—but even after adjustment for price changes, service expenditures advanced half

again as much as either durables or nondurables.

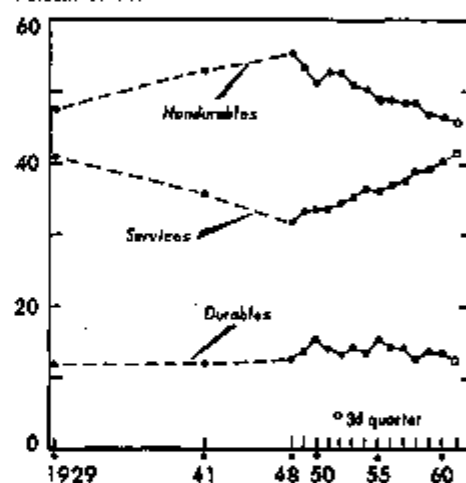
Allocation of consumer dollar

The result of this differential movement in consumption expenditures for the various goods and services in the most recent period has been a change in the proportion of the consumer dollar expended for such items. Compared with 1953, the consumer today is spending 7 cents more on services, and this has been offset by a decline of 2 cents on durable goods and 5 cents on nondurables.

As is shown in the chart, this shift

CHANGING DISTRIBUTION OF CONSUMER SPENDING

Percent of Total



U.S. Department of Commerce, Office of Business Economics

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Table 1.—Behavior of Consumption Expenditures During Postwar Cyclical Turns

	Consumption expenditures			
	Durable goods	Nondurable goods	Services	Total
A. From peak to trough in total consumption				
1948-49.....	-3.0	-1.4	0.5	-1.8
1953-54.....	-7.1	-2.3	1.1	-6.3
1957-58.....	-10.5	-2.1	2.1	-8.5
1960-61.....	-10.0	0.4	1.6	-8.0
B. From trough in total consumption to second following quarter				
1948-49.....	12.1	-2.0	2.2	0.8
1953-54.....	3.2	1.2	2.2	1.8
1957-58.....	0.5	2.2	3.4	2.6
1960-61.....	7.4	1.0	3.5	3.1

Source: U.S. Department of Commerce, Office of Business Economics.

tion. This is also true of nondurable goods spending as a whole, and for food and clothing; gasoline and oil outlays appear somewhat low. Durable goods are somewhat below their average postwar relationship with income, while services are higher as would be expected from the low position from which they rose during the postwar period.

The deficiency in durable goods purchases, as noted earlier, is attributable to both the automobile and parts and the furniture-appliance groups. While the downward deviation in these durables is typical for early stages of cyclical recoveries, the deviations in 1958 and 1961 were substantially larger than in 1949 and 1954.

Outlays for furniture and equipment

from goods to services has been quite pervasive; the overall result is only to a small extent the result of diverse and offsetting trends.

Among the nondurables, the portion of the dollar spent for food has shown the largest decline in the last 7 years, falling by nearly 4 cents. It must be noted, however, that the largest share still goes for food—almost 21 cents. Clothing and semidurable housefurnishings also have declined in relative importance—the former by about 1 cent. Increases in the shares spent for gasoline and oil, and for drugs, cosmetics, and nondurable toys and games were not enough to offset the declines in the other more heavily weighted types of nondurables. After a sharp rise in the early postwar years, the proportion allotted to gasoline and oil has tended to level off—i.e., dollar expenditures for

these products are now moving in line with total spending.

The overall durables pattern is somewhat clouded because of the part played by automobiles. As is shown in the chart, the proportion of expenditure going to autos and parts has shown considerable volatility and very little trend, though perhaps slightly downward, in the last 7 years. Furniture and household equipment outlays have had a downward drift, but this has been offset by an advance in other durables which include such items as jewelry, toys, and ophthalmic products. Thus, the share going to all durables is currently slightly below the average in the postwar years.

Among the services, all of the major groups except personal services and transportation show rising proportions. Interest payments and medical care have shown larger-than-average growth. Over the longer term, however, it may be noted that the consumer in 1960 spent about the same proportion of his consumption dollar on services as he spent in 1929 (see chart). The services proportion rose in the early depression years of the thirties, then generally fell until the end of World War II, and has risen since.

The distribution of the service dollar, however, has changed significantly in the three decades since 1929. Among the more important shifts was the declining relative importance in rent paid by tenants, and the increasing proportion of imputed rent as home ownership grew. In aggregate, however, housing in current dollars takes almost two cents less of the current consumer dollar than it did in 1929. This reduction has been offset by increases of one cent each for medical care and household operation (more particularly for the enormously increased services provided by gas, electricity, and telephone facilities).

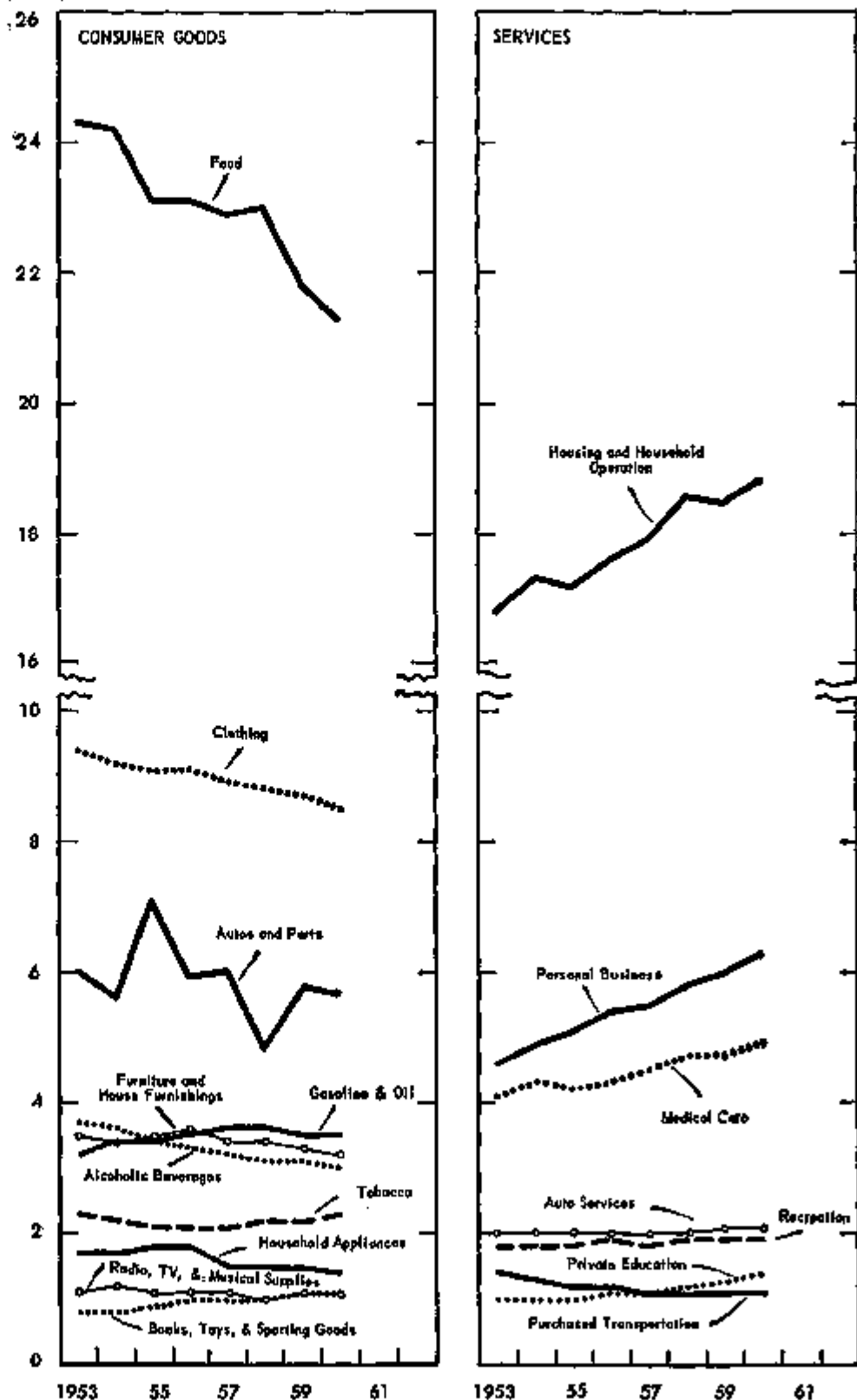
Goods and services by function

A different and illuminating perspective of developments in consumer demand is obtained by comparing goods and services by function or within related budget groups. It should be borne in mind, however, that

SHIFTS IN SPENDING PATTERNS

With Only Few Exceptions, Services Take Increasingly More, and Goods Less, of the Consumer Expenditure Dollar

Cents per Consumer Dollar



while the following discussion is concerned with categories accounting for a significant proportion of all consumption expenditures, many important items in the consumer budget cannot be so grouped.

The data indeed suggest that to a large extent the recent differential trends in goods and services are attributable to those groups where substitutability between goods and services is quite limited. Food expenditures is one of these, and as one would expect, it has risen only slightly more in real terms than has population. The high priority food outlays grow relatively slowly with conditions of adequate supply, and these have a large weight (in dollar terms accounting for over two-fifths of goods expenditures.) The steady progress in such purchasing is of importance in the comparative advance in aggregate goods relative to services. In marked contrast are the rapid increases in spending for personal business (which includes such items as interest on debt, life insurance expenses, and bank service charges), foreign travel, and private education.

The chart gives certain broad comparisons of related goods and services, grouped by budget function. Special note should be taken of the dual scales, which in the case of clothing and jewelry, for example, is 10 to 1 for goods. Within many of these categories—transportation, recreation, and clothing—the goods component has been rising relatively faster than services.

In the case of recreation, for example, purchases of commodities such as television sets, phonographs, records, and toys have shown strong postwar growth both in dollars and in physical volume, while admissions to motion

pictures and spectator sports have tapered off, holding down the service component. The differential movements within groups reflect in large part the substitutability of some goods and some services.

On a volume basis, clothing expenditure has kept pretty well in line with the growth of population though as evident from the preceding chart it has constituted a continually declining share of consumer outlays. On the other hand, the much less important category of services related to clothing—which include such categories as shoe repair, and cleaning and laundering of clothing—while rising in dollar terms have actually declined in real terms. Such developments as the increase in home laundry equipment, the spread of lower cost self-service cleaning and laundering establishments, and improved fabric finishes which require less professional care, have all been material factors in this maintenance category.

The greater rise in the goods portion of transportation expenditures, and more particularly automobiles and parts, has been a major factor in the picture shown in the top right grid, even though there has been some weakness in new car sales at times. The growing stock of cars has provided a ready substitute for many forms of mass transportation, and declines in purchased transportation have been sharp in real terms. Airline travel has, of course, been a conspicuous exception. Those services associated with user-operated transportation, such as auto repairs and auto insurance, are responsible for the recent growth in total transportation services.

The growing importance of the compact cars in the auto market is beginning to have its impact on the distri-

bution of transportation costs. As the penetration of compact sales has mounted, the average price paid for new cars has fallen for the first time since the mid-fifties and is having an effect upon total auto expenditures. Moreover, the fastest growing component of total consumer spending for user-operated transportation in the postwar period has not been automobile sales, but rather their operation and maintenance. The recent tendency of buyers not only to veer toward the economy cars, but concurrently for some purchasers to exhibit a preference for the more luxurious, dressed-up models suggest that the purchase of a car is considered as a flexible investment in transportation. The initial cost of a car is only a part of the total transportation bill. The compact car buyer hopes to make savings, not merely on the purchase price, but on expected reductions in gasoline, depreciation, repairs, taxes, and insurance costs. To the extent to which these expectations are realized and consumer acceptance of the smaller cars grows, the proportions allocated to autos, gasoline and oil, and transportation services will of course be affected.

Housing and household operations take large share

The chart also shows groups which are more characteristic of the overall trend. Services related to housing and household operation, which account for almost one-half of total outlays for services, have far outstripped household goods in postwar growth. Part of the reason for the marked differential in the rate of growth of these services and goods stems from the way in which the items are classified. First, and importantly, over 18 million new units have been added to the housing supply over the period shown in the chart. The purchase of a residence is considered as an investment and not included with the purchase of consumer durable goods. The value of rent imputed to owner-occupied housing is classified as a service along with the rents actually paid. Since this is not only a large item, but growing rapidly—owner-occupied homes have increased from about 50 percent to 80 percent of the increased stock of housing in the

Table 2.—Changes in Personal Consumption Expenditures, 1929-60

	Current dollars			Constant (1954) dollars		
	1929-48	1948-60	1929-60	1929-48	1948-60	1929-60
	Percent change					
Total.....	125	84	41	56	59	27
Durable goods.....	147	96	33	64	70	26
Nondurable goods.....	102	64	20	11	31	20
Services.....	77	133	62	45	99	57

Sources: U.S. Department of Commerce, Office of Business Economics.

postwar period—a vigorous upward push is given to what is classified as services.

The other purchases in this service group include spending for such items as gas and electricity, which have shown rapid growth in the postwar period, mainly through the large increase in volume. Prices of electricity have declined over the period when measured in terms of average cost per kilowatt-hour consumed. The rise in the purchase of electric power can thus be attributed completely to increased volume. As the number of household appliances run by electricity has increased, and electric power has been substituted for other forms of energy, the number of residential customers has risen about two-thirds over the postwar period while residential electric power consumption has risen over fourfold.

Outlays for gas have also increased sharply over the postwar period as the installation of large interstate gas pipelines has brought natural gas into most metropolitan markets. This development and that in electrical use have both tended to lower consumer expenditures for coal and ice which registered volume declines over the postwar period—an instance where "services" have been substituted for goods.

Both goods and services in this group are related to the number of households, but both have expanded more rapidly in volume. However, this should not be too surprising since expenditures for housing and household equipment do not consist merely of first-time purchases by new households; they also include replacement purchases by existing family groups and quality increases in both housing and its equipment.

Replacement and obsolescence currently play major roles in the case of such older types of appliances as refrigerators and stoves—accounting for the bulk of their yearly sales. For instance, while the number of nonfarm dwellings increased about 12 million since the early 1950's, the number of refrigerators sold in the same period was over 35 million. In addition, replacement demand expands with the growth in consumer stocks. Since the

average life of a house exceeds that of the "acceptable life" of most home products, this factor would not contribute as much of an upward push to housing services.

Another reason why this group of expenditures has been rising faster than the number of households has been the introduction of new products and changing patterns of household life. The initial spurt in buying of items such as home freezers and clothes driers as they first appear on the market has tended to give a boost to total goods buying. As the market for these products matures, however, the maintenance and repair costs gradually swing the balance toward service outlays.

Quality improvements are also partially responsible for the rise in household goods and services. But here as in many other instances the growth of

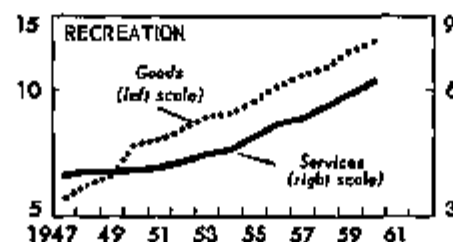
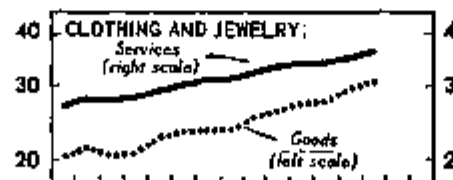
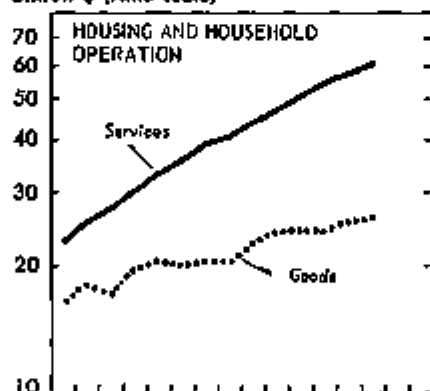
"real" family income is important. In the case of housing this quality factor is especially important, since consumers have been able to buy higher quality residences as real disposable personal income has increased. The average price for kitchen appliances over this period has declined, so that dollar spending for these items has grown relatively less than the volume of purchases.

Quality improvements, rising incomes, and the spread of hospitalization and medical insurance are among the factors behind the rise in medical care expenditures, with the increasing use of the newer more expensive but highly effective drugs. The great spread of hospitalization insurance by employers is increasing; this and the spread of medical and hospitalization plans have been instrumental in providing a large

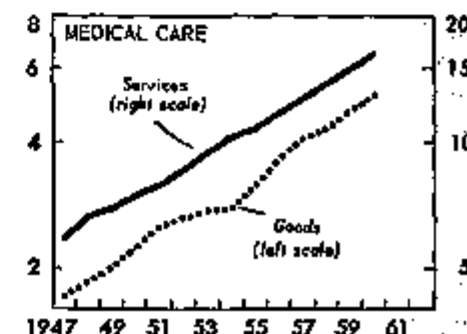
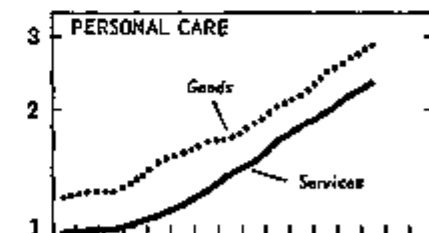
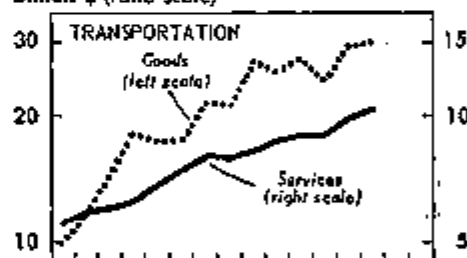
EXPENDITURES FOR SELECTED GOODS AND SERVICES, BY FUNCTION

Growth Rates in Goods Purchasing Are Frequently Higher Than in Related Services

Billion \$ (ratio scale)



Billion \$ (ratio scale)



proportion of the population with medical care and hospitalization on a partly prepaid basis. The larger base, more adequate care, and increasing costs have all tended to substantially increase outlays for medical care and created demand for constantly expanding facilities.

The upward movement in the volume of private education expenditures in the postwar period is due primarily to the larger proportion of young people enrolled in college—from 15 percent of

the 18-24 year group in 1947 to 21 percent in 1960. The number of persons in this age bracket is just getting back to the 1947 level, having declined through 1952 and risen steadily since. The recent rise in the college age group has accelerated the growth in outlays for private education. The rise in current dollars has been much sharper as tuition costs have advanced substantially. The steadily rising contributions by Government units to education is, of course, not included here.

Growth in personal business outlays

The category of consumer expenditures labeled personal business includes outlays for many household financial transactions such as interest payments on consumer debt, brokerage and bank charges, life insurance, legal expenses and others. The increased share of such outlays in total consumer spending is attributable in large part to the growth of interest charges on consumer debt. Such payments have shown a threefold rise over the postwar period and have been one of the fastest growing components of consumer spending.

This large increase is, of course, associated with the growth in borrowing relative to purchases. In 1948 consumer borrowing on durable goods represented almost one-half of consumer expenditures for such goods; in 1960 such borrowing accounted for almost three-fourths. Over this period there was also an increase in the average term of consumer installment loans which further affected interest charges.

The growing personal use of banking facilities and heightened public participation in the financial markets were also responsible for some of the increase in personal business outlays. The steadily rising volume of life insurance programs, many sponsored under labor-management contracts, has further contributed to this growth.

Table 3.—Consumption Expenditures: Distribution by Major Groups

	1929	1939	1948	1953	1960	3d qtr 1961
	(Percent of total)					
Total goods and services ¹	100.0	100.0	100.0	100.0	100.0	100.0
Durable goods.....	11.7	9.9	12.7	14.1	13.5	13.4
Autos and parts.....	4.1	3.2	4.1	6.0	5.7	4.8
Furniture and household equipment.....	0.0	0.2	0.7	0.3	0.7	0.8
Other.....	1.5	1.5	1.0	1.8	2.1	2.1
Nondurable goods.....	47.7	52.0	55.4	59.7	48.2	46.2
Clothing and shoes.....	11.8	10.6	11.3	9.4	8.6	8.4
Food and alcoholic beverages.....	24.7	23.4	21.4	23.0	24.3	23.0
Gasoline and oil.....	2.3	3.2	3.5	3.2	3.8	3.4
Semidurable house furnishings.....	0.0	1.0	1.8	1.1	0.9	0.9
Tobacco.....	2.1	2.0	2.3	2.3	2.3	2.3
Other.....	5.8	0.2	0.5	0.6	0.7	0.7
Services.....	40.6	38.1	31.9	31.2	40.2	41.8
Household operation.....	5.1	5.0	4.5	5.0	6.0	6.2
Housing.....	14.6	15.3	9.9	11.8	13.8	13.1
Personal services.....	2.8	2.1	2.2	1.9	1.9	1.9
Recreation.....	2.1	2.3	2.1	1.8	1.9	2.0
Transportation.....	3.2	3.0	3.3	3.5	3.2	3.2
Other.....	13.8	11.8	9.9	11.2	14.4	15.3

¹ Details may not add to total because of rounding.

Source: Office of Business Economics, Dept. of Commerce.

Expansion of Government Programs

(Continued from p. 10)

State and local expansion to continue

Purchases of goods and services by State and local governments would, on a continuation of recent trends, exceed \$53 billion in the present fiscal year. Increases in purchases by these governmental units have been steady and have averaged more than \$3½ billion over the last 5 fiscal years. Payrolls accounted for the largest share of this advance, reflecting both higher wage

rates and the increasing work force.

New construction outlays for highways, schools, and sanitary facilities, and other purchases from business—equipment, supplies, and services—have also shown a persistent uptrend. In addition, steady rises have been registered in the other expenditures of these units, mainly transfer payments and interest.

A substantial increase in State and

local tax bases will materialize if the economic assumptions underlying the Federal Budget estimates are met. State and local revenues will rise in addition because of increased tax rates and the upturn in Federal grants-in-aid.

With total spending of State and local governments continuing in excess of total receipts, a deficit on income and product account of about the same size as the 1961 fiscal year deficit is expected.